

FDI CONFIDENCE INDEX[®] FLASH SURVEY

GLOBAL BUSINESS POLICY COUNCIL

OCTOBER 2001



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INTRODUCTION

The terrorist attacks of September 11th, 2001 will undoubtedly exert a major force on the contemporary global economy. In an effort to assess the likely impact of these events on future foreign direct investment (FDI)* flows, the Global Business Policy Council conducted a flash survey to inquire about post-September 11th investment intentions and attitudes of Global 1000 senior executives.

** Foreign direct investment (FDI) includes investment in physical assets, such as plant equipment, in a foreign country. Holdings of 10 percent equity, or more, in a foreign enterprise is the commonly accepted threshold between direct and portfolio investment as it demonstrates an intent to influence management of the foreign entity. The main types of FDI are acquisition of a subsidiary or production facility, participation in a joint venture, licensing, and establishment of a greenfield operation.*

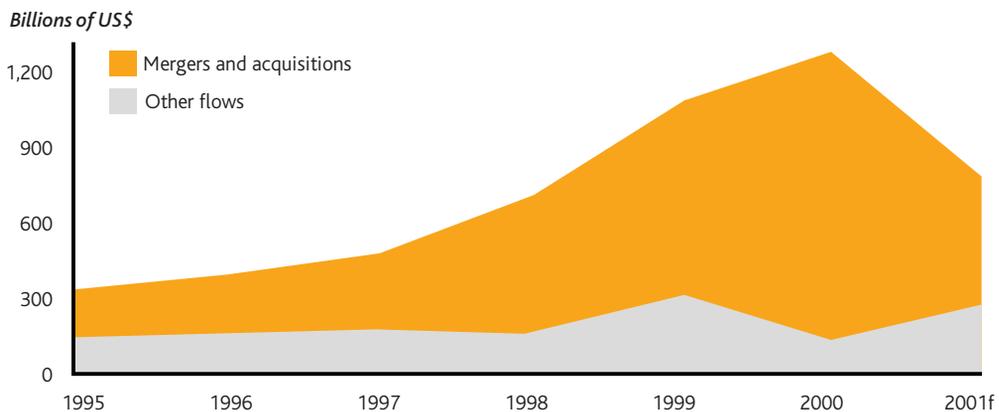
OVERVIEW OF GLOBAL FOREIGN DIRECT INVESTMENT

Over the 1990s foreign direct investment flows quintupled, increasing at an average compounded annual growth rate of 17 per cent. Over a trillion dollars were invested abroad in 2000, compared to 203 billion in 1990. Apparently resistant to the volatility of the global capital markets, global FDI flows did not decrease during the '94 Mexican peso crisis, or during the '98 Asian financial crisis. However, after a veritable bull market decade for cross-border productive capital, UNCTAD estimates that flows in 2001 will drop approximately 40 percent from last year's levels (see figure 1). This would represent the first drop in FDI flows since 1991 and the largest over the past three decades.

This projected decline in cross-border investment is not expected to affect developed and developing countries to the same degree. Developed markets are anticipated to receive only half of the FDI flows they did in 2000, while developing countries should see much more moderate decreases of approximately six percent (see figure 2, page 3).

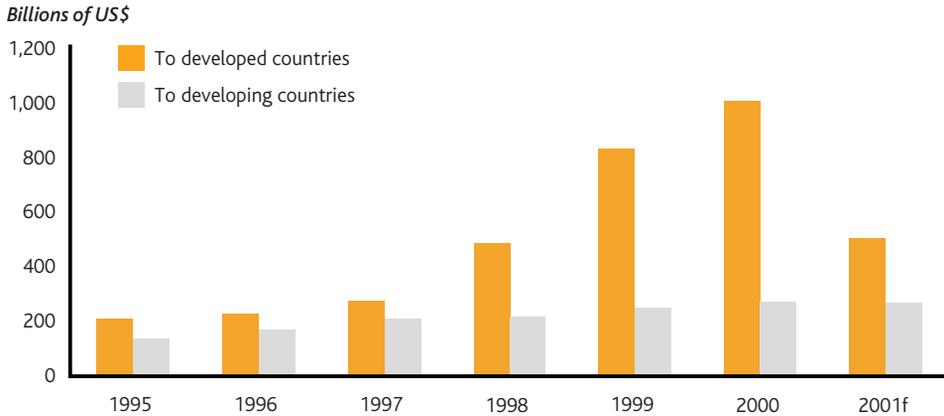
The halving of FDI flows to developed markets in 2001 will principally be the consequence of a sharp decline in cross-border mergers and acquisitions. As of September, cross-border M&A stood at about only one third of its total value in 2000. Megadeals (cross-border mergers or acquisitions exceeding US\$1 billion) stood at 30 percent of their total value in 2000. Given the negative effect of the September 11th tragedy on

FIGURE 1: GLOBAL FDI FLOWS BY TYPE OF INVESTMENT, 1995-2001



Source: UNCTAD, A.T. Kearney analysis

FIGURE 2: GLOBAL FDI FLOWS BY DESTINATION, 1995-2001



Source: UNCTAD

global capital markets, these figures are not expected to increase significantly before the end of the year.

In fact, the total projected value of FDI in 2001 — approximately US\$ 760 billion — will revert to the level of global FDI flows observed in 1998 (see figure 1, page 2). In addition, the composition of FDI flows for 2001 will more closely follow the configuration of global FDI in the pre-merger and acquisition boom years of the mid-nineties (1995-1997). The similarities in overall composition are evident both in terms of distribution of flows among developed and developing markets and in the percentage share of M&A FDI versus other types of flows, such as greenfield investment (see figure 3, page 4).

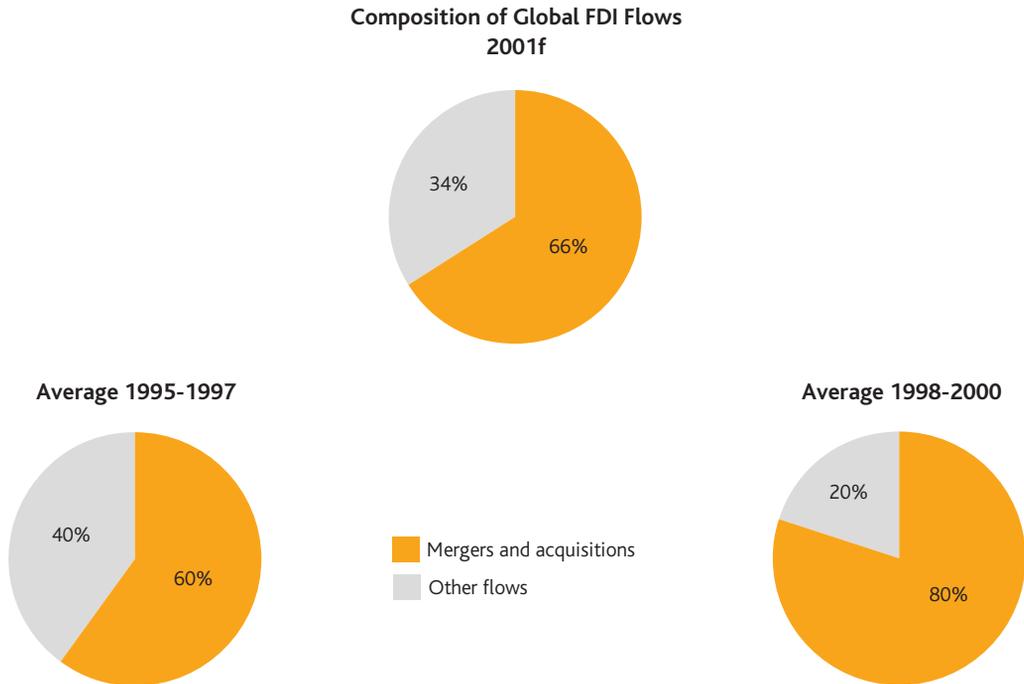
Now that the M&A boom of 1998-2000, which drove the acceleration of FDI growth, has subsided, future FDI growth rates will likely return to the more modest levels of the early nineties.

CEO, STEADY-AS-YOU-GO

Despite the nearly universal negative CEO outlook on the global economy compared to one year ago, two out of three senior executives still express their intention to invest abroad at approximately the same levels as already planned for this year.

Negative views of global economic prospects increased dramatically over the eight month period between the February 2001 *FDI Confidence Index*[®] and the October 2001

FIGURE 3: COMPOSITION OF GLOBAL FDI FLOWS (COMPARISON)



Source: UNCTAD, A.T. Kearney analysis

Flash Survey. More than nine out of ten CEOs are more negative about global economic conditions today compared to a year ago, and none feel more positive. In contrast, in February 2001 only 35 percent felt more negative and 24 percent indicated having a more positive outlook for the global economy than they did a year before that (see figure 4, page 5). CEO business outlook had been turning increasingly negative prior to the September 11th terrorist attacks on the

United States compared to January 2000, when positive sentiment reached a high water mark and only nine percent of executives foresaw more negative prospects for the global economy.

Senior executives' pessimism about the global economy is mirrored by their considerably more gloomy view of the United States (see figure 5, page 6). In June 1999 over a third of senior executives believed that the United

States, already the preeminent choice for investors, had increased in attractiveness as a preferred investment destination. In stark contrast, almost one out of three CEOs has a more negative outlook of the U.S. as an investment location.

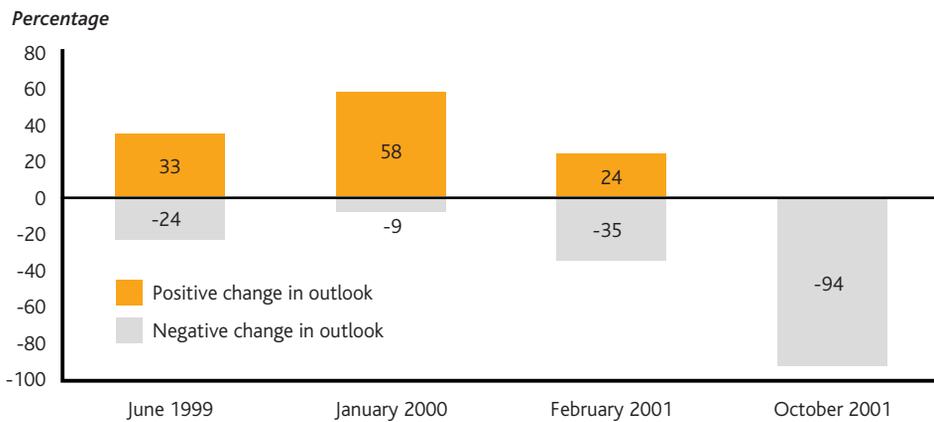
The survey results also indicate that three out of four senior executives view a delayed U.S. economic recovery as the primary factor that could influence the implementation of their investment plans this year.

Sixty-four percent of CEOs intend to maintain approximately the same levels of future

foreign investment as planned. In addition, 16 percent of executives intend to actually increase their investments and 20 percent plan cuts in FDI. Despite the encouraging number of executives that would like to hold steady on their investment plans for this year, for the first time since the *FDI Confidence Index* has probed investor attitudes, a greater percentage of executives are inclined to reduce investments than to increase them (see figure 6, page 6).

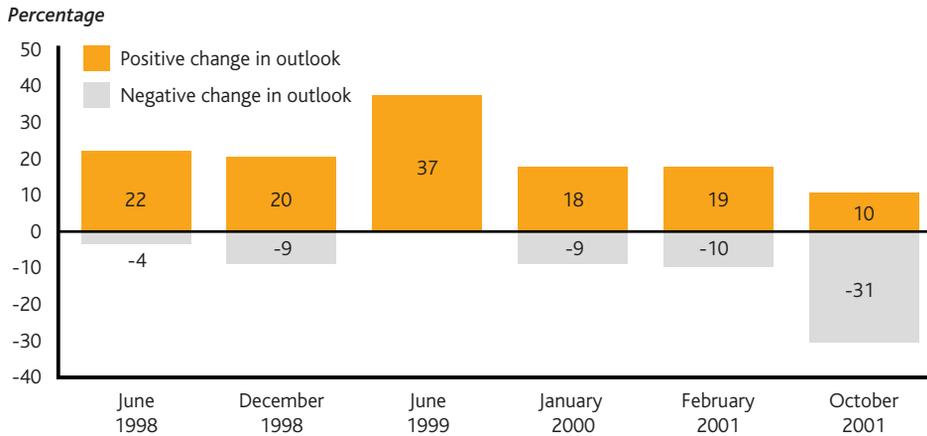
Three-quarters of respondents indicated that "first-time" outward investment would likely be destined for developing countries, with

FIGURE 4: INVESTOR OUTLOOK ON THE GLOBAL ECONOMY COMPARED TO ONE YEAR AGO



Source: A.T. Kearney

FIGURE 5: INVESTOR OUTLOOK FOR THE UNITED STATES COMPARED TO ONE YEAR AGO

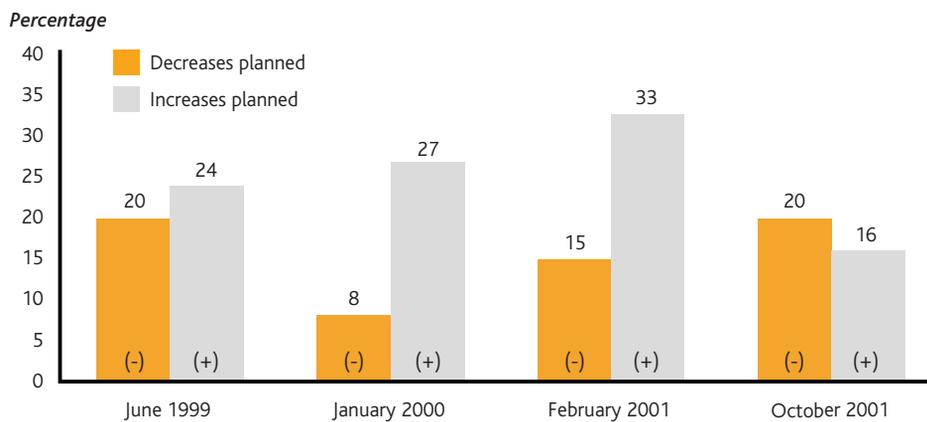


Source: A.T. Kearney

one-fourth declaring their intention to invest in new destinations in the developed world, no change from the pattern revealed in the

last *FDI Confidence Index*[®] assessment in February 2001.

FIGURE 6: FUTURE INVESTMENT PLANS — COMPARED WITH CURRENT PLANS



Source: A.T. Kearney

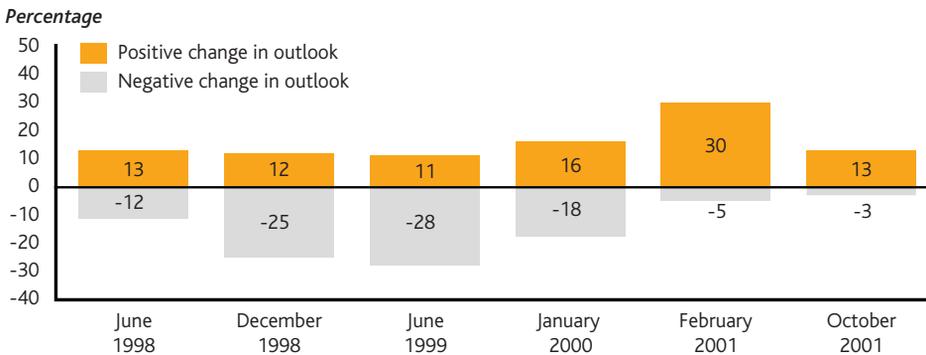
CHINA — BUSINESS AS USUAL?

China is the single major economy to experience a positive shift in investor outlook over the survey period, with close to 15 percent of executives reporting more positive perceptions of the Asian giant. This continues a trend of consistently improved investor outlook toward China over the last two years (see figure 8). Executive bullishness on China is, no doubt, based in part on expectations that the country will be among the few to maintain high levels of growth next year, spurred further by its entry into the World Trade Organization. Despite the reduced growth prospects for the world and slowing Chinese exports, Beijing's massive \$18 billion fiscal spending program for 2002 will help sustain economic growth levels well above those of other large economies for the near term.

China's FDI inflows totaled US\$40.8 billion in 2000, the second highest level among developing economies.* China is expected to register approximately US\$41 billion in inflows for 2001, an achievement all the more remarkable given the sharp contraction in global FDI flows expected for 2001.

Despite this very impressive showing, the escalating tensions in Central Asia and the prospect of major instability in the region could dampen investor enthusiasm for China. China borders Afghanistan, Pakistan, and India. Much of the Chinese government's fiscal stimulus package is centered on developing infrastructure in the western part of the country, but instability on its border could threaten to reduce spending programs and efforts to attract foreign investment to inland regions.

FIGURE 8: INVESTOR OUTLOOK CHANGE FOR CHINA COMPARED TO ONE YEAR AGO



Source: A.T. Kearney

*China was displaced by Hong Kong as the developing economy attracting the largest inflows of FDI in 2000. However, Hong Kong's FDI outflows (US\$63 billion) nearly equaled its inflows (US\$64 billion), which, according to the UNCTAD, suggests that much of this capital is likely "transit FDI", stationed temporarily in Hong Kong before being invested in China and other destinations in Southeast Asia.

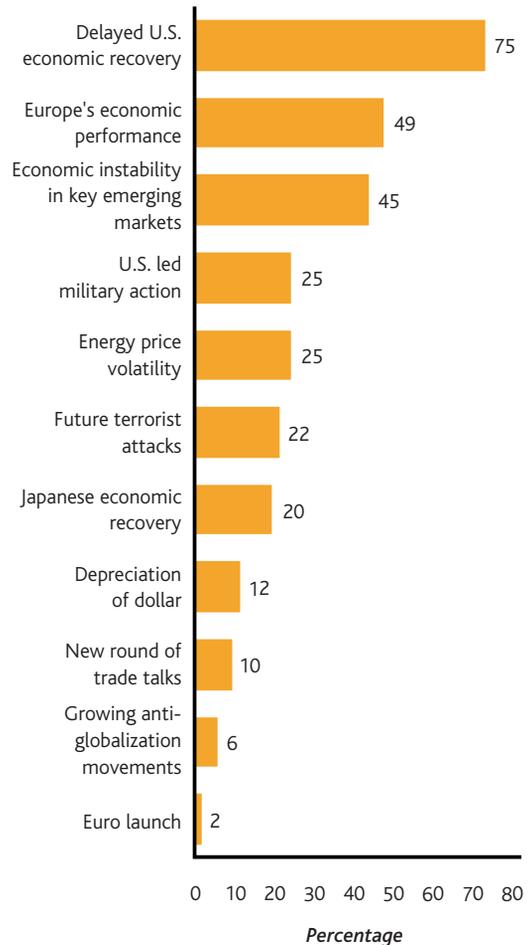
BOMBS OR BOTTOM LINES? DRIVERS OF FDI DECISION-MAKING

In addition to the overwhelming importance corporate investors attach to the U.S. economic recovery, CEOs indicate that the relative health of the European economy will also be a principal driver of future FDI decision-making, with one half of all senior executives citing Europe's economic performance as a chief concern (see figure 7). These drivers are still the most important determinants of FDI, as has consistently been reflected in past surveys.

Geopolitical considerations have reemerged as important factors affecting senior executive FDI calculations. The possibility of ongoing terrorist attacks and military countermeasures generate further investor uncertainty and concern over the global business environment. Of all executives, those from the Americas are, not surprisingly, most concerned about the prospect of repeated terrorist attacks, ranking it as their third most significant concern after the pace of a U.S. economic recovery and emerging market instability.

Increased geopolitical concern may help explain why only one in ten executives cited major new trade round talks as an important factor influencing their investment calculations. Japan's chronic macroeconomic underperformance, of concern to investors the world over in the past, is now exclusively a principal concern to Japanese investors. The

FIGURE 7: GLOBAL DEVELOPMENTS MOST LIKELY TO INFLUENCE FDI DECISIONS



Source: A.T. Kearney. Results shown as a percentage of respondents.

dampening impact that the events of September 11th have had on the anti-corporate/anti-globalization movement perhaps explains why chief executives do not cite these movements as of major concern.

CONCLUSION

In the aftermath of September 11th and the U.S. declared war on terrorism, executives express increased pessimism and uncertainty about the state of the global economy. Nonetheless, they have adopted a "steady-as-you-go" approach toward the implementation of their already substantially reduced plans for investments abroad. Execution of this commitment to sustained FDI flows will hinge fundamentally on the state of the U.S. and European economies and the stability of key emerging markets. The U.S. investment environment sustained a record fall off in levels of investor confidence, while China continues to increase its relative attractiveness to corporate investors. As investors continue to absorb and react to the consequences of September 11th, geopolitical considerations will once again manifest themselves as important factors to consider when investing in a world perceived as inherently less stable and predictable.

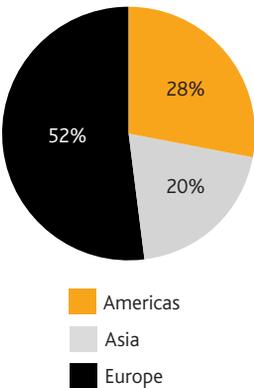
METHODOLOGY

The *FDI Confidence Index® Flash Survey* was constructed using primary data from a proprietary survey administered to a selected sample of senior executives of the world's 1000 largest corporations. The survey was designed to gain insights into likely trends in global FDI flows after the terrorist attacks in the United States on September 11th. The population of companies was selected from the Global 1,000, as determined by 2000 revenues.

The participating executives include CEOs, CFOs, board members, and senior corporate strategists from 17 countries and 14 specific industries. The participating companies closely approximate the country and sector coverage of the Global 1,000 population, and generate over US\$1 trillion in annual sales.

PROFILE OF FDI CONFIDENCE INDEX® FLASH SURVEY PARTICIPANTS

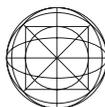
Geographic Distribution
Percentage of Respondents



Respondent Titles
Percentage of Respondents



Source: *FDI Confidence Index Flash Survey October 2001, A.T. Kearney*



GLOBAL BUSINESS POLICY COUNCIL

The Global Business Policy Council assists chief executives to monitor and capitalize on geopolitical, economic, social and technological change worldwide. Council membership is limited to a selected group of corporate leaders and their companies. The Council's core program includes periodic meetings in strategically important parts of the world, tailored analytical products, regular member briefings, regional events and other services.

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